

County of Los Angeles CHIEF EXECUTIVE OFFICE

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February 22, 2011

Board of Supervisors GLORIA MOLINA First District

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To:

Mayor Michael D. Antonovich

Supervisor Gloria Molina

Supervisor Mark Ridley-Thomas Supervisor Zev Yaroslavsky Supervisor Don Knabe

From:

William T Fujioka

Chief Executive Officer

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SACRAMENTO UPDATE

This memorandum provides an update on the actions taken by the Senate and Assembly Budget Committees on the Governor's FY 2011-12 Proposed Budget.

State Budget

On February 18, 2011, the Senate and Assembly Budget Committees completed hearings on the Governor's FY 2011-12 Proposed Budget. Overall, both committees adopted most of the expenditure and revenue solutions proposed by the Governor to address the \$26.6 billion budget deficit. The increase in the deficit from the \$25.4 billion projected in January is attributed to the Governor's action to stop the sale of State buildings, which was expected to generate approximately \$1.2 billion in revenue.

The committees adopted \$12.0 billion in reductions primarily in health and human services programs and higher education. The spending reductions received some Republican support in the Senate, but none in the Assembly. The committees also adopted \$12.7 billion in revenue solutions, as proposed by the Governor, with no Republican support in either House. The revenue solutions rely primarily on voter approval of approximately \$11.2 billion in tax rate extensions, which are scheduled to expire this year.

Governor Brown commended the Senate and Assembly Budget Committees for their actions and indicated that he is optimistic that he can reach a budget deal with the Legislature by March 10, 2011 to meet his deadline to seek voter approval of the tax rate extensions in a June 2011 Special Election. As information of the budget committee actions becomes available, we will prepare a detailed analysis with County impact for your Board.

Budget Conference Committee

The Budget Conference Committee is scheduled to convene this week to resolve differences in the Senate and Assembly budgets. Major items to be considered by the committee include the Governor's Realignment Proposal and his proposal to eliminate redevelopment agencies.

Realignment Proposal. On a majority vote, both committees adopted the framework of the Governor's Realignment Proposal to shift \$5.9 billion in program responsibilities from the State to counties for various public safety programs, including: emergency services and fire, court security, local public safety program, lower-level offenders, adult parole and juvenile justice, as well as, child welfare services, foster care, adult protective services, and certain mental health services. As previously reported to your Board, if enacted, the County would assume an estimated \$1.41 billion in additional program and financial responsibilities starting in FY 2011-12 which is projected to increase to \$1.87 billion by FY 2014-15 when the first phase is scheduled to be fully implemented.

Redevelopment Proposal. The Senate Budget Committee adopted the Governor's proposal to eliminate redevelopment agencies for State General Fund savings of \$1.7 billion. The Assembly Budget Committee adopted the \$1.7 billion in savings for this proposal, but indicated that the final Conference Committee budget could achieve savings through reforms in lieu of eliminating redevelopment agencies.

Program Reductions

The Senate Budget Committee adopted an estimated \$6.0 billion in reductions to health and human services programs. The Assembly Budget Committee adopted an estimated \$6.4 billion in reductions to these programs. Items for which the committee actions differed will be heard in the Budget Conference Committee as noted below.

Health

Medi-Cal Provider Payment Reduction. The budget committees adopted the Governor's Budget proposal to reduce payments to Medi-Cal providers by 10 percent effective June 1, 2011. The Department of Health Services indicates that this proposal will result in an estimated County loss of \$10.0 million.

Mandatory Medi-Cal Co-Payments. The budget committees adopted the Governor's Budget proposal to require co-payments for all Medi-Cal enrollees for physician and clinic visits, prescription drugs, hospital services, and dental services. The Department of Health Services indicates that this proposal will result in an estimated County loss of \$10.0 million, to the extent that the payments are uncollected.

Service Caps. The budget committees rejected the Governor's Budget proposals to place hard caps of ten physician visits annually and six prescription outpatient drugs per month for Medi-Cal beneficiaries.

Proposition 10 Commissions Reserve Funds Shift to Medi-Cal. The budget committees adopted a compromise to the Governor's Budget proposal to shift \$1.0 billion in State and local California Children and Families First Act (Proposition 10) Commissions reserve funds to support Medi-Cal services for children from birth to 5 years of age. The committees approved a one-time shift of Proposition 10 Commissions reserve funds in FY 2011-12, but rejected the Governor's proposal to transfer 50 percent from local Proposition 10 Commissions reserve funds to Medi-Cal on an ongoing basis.

Mental Health

Mental Health Services Act Funds. The budget committees adopted the Governor's Budget proposal of a one-time shift of \$866.6 million from the Mental Health Services Act (Proposition 63), which would have gone to counties, to the State General Fund to pay the State's obligation for the Mental Health Managed Care (\$183.6 million), Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) (\$579.0 million) and the AB 3632 Special Education (\$104.0 million) Programs. Beginning in FY 2012-13, funding and administration of these programs would be shifted from the State to counties under the Governor's Realignment Proposal. Although the Governor's Budget indicates the shift of Proposition 63 funds could be enacted by the Legislature, the Department of Mental Health believes that this proposal would violate the non-supplantation provision of Proposition 63 and requires passage of a voter-approved initiative. A similar ballot initiative failed in the May 2009 Special Election. The Department of Mental Health indicates that this proposal would redirect

approximately \$241.1 million in funds that would have been available for the County for Proposition 63 services.

Social Services

CalWORKs. The Governor's Budget proposed \$1.5 billion in reductions to the CalWORKs Program. The budget committees approved \$1.2 billion in reductions as described below:

- 48-Month Time Limit. The budget committees approved the Governor's Budget proposal to reduce the time limit for CalWORKs from 60 cumulative months to 48 cumulative months, but rejected the Governor's proposal to impose the time limit to child-only cases and to safety net cases for a State General Fund savings of \$171.0 million. We are working with the Department of Public Social Services (DPSS) to determine the impact of this action.
- **Grant Reductions.** The budget committees rejected the Governor's Budget proposal to reduce the CalWORKs grants by 13.0 percent. Instead the committees approved a 5.0 percent grant reduction for a State General Fund savings of \$195.0 million. This action would reduce the CalWORKs grant for a family of three from \$694.0 to \$659.0 per month. **We are working with DPSS to determine the impact of this action.**
- Single Allocation Reduction. The Governor's Budget proposed to maintain the CalWORKs Single Allocation reduction included in the 2009 and 2010 State Budget Acts for a State General Fund savings of \$376.9 million. The budget committees increased the reduction by approximately \$100.0 million for a total Single Allocation reduction of \$476.0 million. The Single Allocation funds eligibility administration, employment services, CalWORKs Stage One Childcare and Cal-LEARN. We are working with DPSS to determine the impact of this action.
- CalWORKs Stage One Child Care. The Governor's Budget proposed to eliminate CalWORKs Stage One Child Care for 11 and 12 year old children. The Senate Budget Committee adopted the Governor's proposal. The Assembly Budget Committee rejected the Governor's proposal. Because the Senate Budget Committee action does not conform to the action taken by the Assembly Budget Committee, this item moves to the Budget Conference Committee.

- Alternative Proposals. The budget committees adopted recommendations proposed by the Legislative Analyst's Office to simplify the earned income disregard for working CalWORKs families and expand the CalWORKs Subsidized Employment Program for a State General Fund savings of \$200.0 million. We are working with DPSS to determine the impact of this proposal.
- Additional Reductions. The budget committees adopted reductions of:
 1) \$20.0 million in the CalLEARN Program;
 2) \$5.0 million for CalWORKs substance and mental health services;
 and
 3) \$5.0 million for the Statewide Automation Welfare System (this action does not impact to the County's LEADER system which is fully funded in the Senate and Assembly Budgets).
 We are working with DPSS to determine the impact of this proposal.

In-Home Supportive Services (IHSS). The Governor's Budget proposed a reduction of \$486.1 million which included an 8.4 percent reduction in service hours for all recipients, elimination of domestic and related services, elimination of services for recipients without physician certifications, and elimination of State funding for IHSS Advisory Committees. Both committees achieved \$486.1 million State General Fund savings; however, the committees adopted alternatives to the Governor's proposal to achieve the targeted reductions. We are working with DPSS to determine the impact of the committee's actions. Because the Senate Budget Committee action does not conform to the action taken by the Assembly Budget Committee, this item moves to the Budget Conference Committee.

Transitional Housing Program-Plus. The Governor's Budget proposed a \$19.0 million reduction to the Transitional Housing Program-Plus (THP-Plus). The Senate Budget Committee approved a \$5.0 million reduction to THP-Plus. The Assembly Budget Committee adopted the Governor's proposal to reflect savings as a result of the implementation of AB 12 which extends foster care services to youth up to 21 years of age, and provides funding of \$16.8 million for youth served in the program who are not served by AB 12. Because the Senate Budget Committee action does not conform to the action taken by the Assembly Budget Committee, this item moves to the Budget Conference Committee.

Child Support Collections Suspension. The budget committees adopted the Governor's Budget proposal to suspend the county share of child support recoupment collections in FY 2011-12 estimated to be \$24.4 million statewide. Currently, counties are entitled to retain 2.5 percent of child support collections. This would be retained at the State level and benefit the State General Fund under the Governor's proposal. The Department of Child Support Services indicates that the County collects and

retains approximately \$3.62 million in recoupment collections per year which would be suspended under the Governor's Budget proposal. The \$3.62 million in recoupment collections are used to maintain current service levels for the County's child support program and also helps the County draw down a Federal match of 66.0 percent, resulting in a total potential estimated County loss of \$10.6 million.

General Government

State Mandates. The Governor's Budget proposed to maintain the suspension of \$227.8 million in mandates not related to law enforcement or property taxes. The Governor's Budget also proposed to develop a process with the Legislature whereby all reimbursable mandates are reviewed. Additionally, the Governor proposed the deferral of \$94.0 million as a result of deferring payment for costs incurred prior to FY 2004-05, and suspension of the Brown Act open meeting mandates in FY 2011-12 for a State General Fund savings of \$63.0 million.

The Assembly Budget Committee adopted the Governor's proposals with the exception of the suspension of the Brown Act open meeting mandates. The Senate Budget Committee adopted the Governor's proposal, but reduced the estimated savings. Because the Senate Budget Committee action does not conform to the action taken by the Assembly Budget Committee, this item moves to the Budget Conference Committee.

We will continue to keep you advised.

WTF:RA MR:VE:sb

c: All Department Heads
Legislative Strategist
Local 721
Coalition of County Unions
California Contract Cities Association
Independent Cities Association
League of California Cities
City Managers Associations
Buddy Program Participants